

CANADA-U.S. FREE TRADE AGREEMENT: IMPLICATIONS FOR JAPAN

Background:

Following 18 months of negotiations, Canada and the United States arrived at an agreement in principle on October 4, 1987. Over the course of the next two months, the Elements of the Agreement were translated into a legal text which was formally tabled in the House of Commons on December 11, 1987. The FTA was signed by Prime Minister Mulroney and President Reagan on January 2, 1988. The FTA will be implemented by the passage of amending legislation by the national legislatures in each country during 1988 and is expected to enter into force on January 1, 1989. The Canadian Government estimates that, as a result of the Agreement, real income will be raised by at least 2.5 percent over the long term and that 120,000 new jobs will be created over the first five years of the Agreement. This will strengthen consumer spending, offering more opportunity for Japanese exporters.

In essence, the FTA provides for: the elimination of all bilateral tariffs and other border restrictions within ten years, backed up by stronger rules of origin, special measures to enhance market access for each other's exports in the areas of agriculture, energy, automotive products, and wine and distilled spirits; liberalization of the regulatory framework surrounding government procurement, investment and financial services; a precedent-setting code providing for national treatment in future legislation in a broad range of service sectors; and a variety of institutional provisions to guarantee impartial application of trade remedy laws and to oversee implementation of the FTA.

In its relations with third countries over the past two years, Canada has consistently stressed that the FTA is entirely compatible with Article XXIV of the GATT, which explicitly allows for the formation of regional free trade areas. All of the conditions attached to Article XXIV, particularly the requirement that "substantially all the trade" between the concerned parties be included, have been met in full.

Impact on Japan:

Japan has been keenly interested in the outcome of the FTA process. Canada and the United States comprise more than 40% of the market for Japanese products. In 1987 Japanese exports to North America exceeded U.S. \$85 billion. Canada has received approximately 2% of Japanese direct investment abroad, whereas the U.S. has received 44%. The financial sectors in Canada and the U.S. have also attracted considerable Japanese equity investment as a result of Japan's massive trade surpluses (over \$100 billion in 1987) and its high domestic savings rates. Total Japanese portfolio holdings in Canada are estimated to be about \$35 billion, primarily in government bonds.